



TO: Honorable Mayor and Members of the City Council
FROM: Beverly R. Cameron, City Manager
RE: FY 2016 Adopted Operating and Capital Budget
DATE: August 1, 2015

INTRODUCTION

I am pleased to transmit the Adopted Operating and Capital Budget for FY 2016, which begins July 1, 2015.

The total General Fund budget for FY 2016 is \$88,560,255, a 2.36% increase over the FY 2015 base adopted budget. The adopted budget advances many important priorities of the City, including an increase in school funding, the advancement of the renovation of Old Walker-Grant Middle School, and modernization of traffic signals on Amelia Street and Lafayette Boulevard.

The General Fund is the primary fund for most City operations. The budget document also includes the funding plan for the following operating funds: City Grants, Social Services, Comprehensive Services Act, Water, Wastewater, Transit, Parking, and Celebrate Virginia South Community Development Authority Funds.

This document includes the City's capital budget for FY 2016, along with a recommended Capital Improvements Plan for FY 2017 - FY 2020. The capital budget continues to improve the City's position by addressing deferred major maintenance, equipment, and technology needs. The Capital Improvement Plan for FY 2017 - FY 2020 will be brought back to City Council in the late summer or early fall for formal adoption.

OVERVIEW OF BUDGET

The Adopted Budget includes a three cent increase in the real estate tax, thus increasing the rate from 79 to 82 cents per \$100. This tax increase provides funding for needed services in a city with a rapidly growing population. As reported by the Weldon Cooper Center, the City's population is 28,213 (July 1, 2014 Estimate), up 3,927, or 16.2% from the April 1, 2010 Census. Moreover, the increase in revenue provides the resources necessary to advance many of the strategic initiatives identified by City Council.

Major changes in the budget include:

- A significant increase in funding for Fredericksburg City Public Schools
- Payment of debt service for the 2015 bond issuance for capital projects

- Four new positions in the General Fund (including two EMT/Paramedics)
- Final phase-in of the State-mandated changes in the City's pension plans provided by the Virginia Retirement System (a 2% salary adjustment coupled with a 2% increase in employee contributions)
- General Fund Transfer of \$2,000,000 to support capital projects paid by cash
- A mid-year bonus to employees in the amount of \$1,000
- Phased implementation of modified trash and recycling collection procedures
- An increase in water and sewer rates (4% each)

MAJOR OPERATING EXPENDITURE HIGHLIGHTS

City of Fredericksburg Public Schools

Funding for City Schools represents 30.86% of the City's General Fund for FY 2016. The transfer for City Schools is \$27,394,710, an increase of \$1,039,710, or 3.94% over the prior year.

The City of Fredericksburg's school system is a critical service provided to our citizens. The budget reflects a continued commitment to ensuring a high quality public education system. Major expenditure increases for City Schools are due to salary adjustments, higher benefit costs, and hiring additional teachers.

The school system has experienced enrollment growth of 12.1% over the past five years from FY 2011 to FY 2016 (projected). Enrollment has increased from 3,106 students in FY 2011 to 3,482 in FY 2016 (projected). (Source: K&C Associates, January 2015). Enrollment growth has strained teacher/pupil ratios in some grades.

During the past five years, the City's appropriation for schools has increased 14.01%, from \$24,028,000 in FY 2011 to \$27,394,710 in FY 2016. State funding has increased 82.2%, from \$7,113,908 in FY 2011 to \$12,962,491 in FY 2015 (last year of data). City Schools have benefited from additional State funding which arose from a change in the Local Composite Index over the past two recalculation cycles. The City's Local Composite Index for 2014-2016 is 0.6134; down from 0.6511 in 2012-2014, and 0.7763 in 2010-2012.

In FY 2016, the General Fund will also transfer \$284,000 to the School Capital Fund in order to purchase replacement buses and technology upgrades.

Debt Service

The FY 2016 Adopted Budget includes scheduled debt service payments for FY 2016. The General Fund transfer decreased from \$7,843,079 to \$7,149,138 in FY 2016. The breakdown within the City's General Fund for major project issues is as follows:

- \$2,140,262 – 2011 GO Bonds – Court
- \$3,370,500 – 2004 GO Bonds – Schools
- \$1,176,000 – All other GO issues
- (\$153,884) – Refunding Credit for 2004 GO School Bonds
- \$616,260 – Winter 2015 Bond Issue

The base General Fund transfer (not including the estimate for the winter 2015 bond issuance) has been decreased based upon several factors. The City's loan from the Economic Development Authority for Riverfront Park land has been paid in full in FY 2015, and the expiration of that debt decreases the scheduled payments in FY 2016. In addition, debt service on a portion of the 2011 Series "A" Refunding Bonds decreased significantly. The City also issued refunding debt in August 2014 which provided additional savings in the General Fund, the Water Fund, the Parking Fund, and the Wastewater Fund.

The City budget benefits from savings from two debt service refundings of our VPSA bond issuances. The City received a credit based upon savings from refunding the total bond issue. The credit has been placed in the Education Debt Service Fund. Each year over the remaining payment cycle the City will utilize this credit balance to pay a portion of the debt service payment. This method allows for continual savings to the General Fund over the life of the bonds, as opposed to one-time savings that would cause inconsistency in funding needs. The first refunding allows us to reduce our General Fund transfer by \$47,400 each year and the second provides an annual savings of \$106,484. The total savings to the General Fund in debt service payments is \$153,884.

The City issued debt for additional projects that are either currently underway or in advance planning stages for the next eighteen months. Major projects include the replacement of the water line in Caroline Street, the replacement of the belt filter press at the Wastewater Treatment Plant, utility betterments associated with the Fall Hill Avenue widening project, the construction of sidewalk on Twin Lakes Drive, the City's share of various improvements at the Motts Run Reservoir, and several other projects. The FY 2016 Budget includes an allowance for these payments. The allowances in the budget, broken down by Fund, are as follows:

Fiscal Year	General	Water	Wastewater
FY 16	\$616,260	\$530,238	\$516,125

The Adopted Budget uses fund balance to pay for the first year (FY 2016) of the debt service in the General Fund. Increases in the water and wastewater fees of 4% will assist in the payment of the debt service costs for those funds.

Employee Compensation

Included in the FY 2016 Budget is a bonus for City employees. Over the past two fiscal years, City Council has provided a cost-of-living adjustment for employees. This year, the budget provides a mid-year cash bonus at the rate of \$1,000 for full time employees, \$750 for part time employees who work more than 20 hours per week, and \$500 for part time employees who work less than 20 hours per week. The total cost of the bonus in the General Fund is \$402,000. The bonus is an effective means of providing a compensation benefit while avoiding the burden of other benefit related costs such as VRS and Group Life Insurance.

Employee Benefits

Health Insurance – The FY 2016 budget includes additional funding to meet increasing costs for employee and retiree health insurance. The budget for health insurance totals \$5,111,500 in the General Fund, and \$6,239,310 for all City Funds. The increase in premiums is projected at

4% overall, which is much less than the 15% premium increase for FY 2015. The following table shows the overall trend in Claims and Plan Charges going back to FY 2012.

Fiscal Year	Total Claims & Plan Charges	Notes
FY 2012	\$4,523,530	-
FY 2013	\$5,557,495	Includes updated run-out claims to Anthem through Dec 2014
FY 2014	\$5,004,200	Cigna Transition – Immature Claims Year
FY 2015	\$5,936,363	Most recent Cigna projection for FY 2015
FY 2016	\$6,177,159	Expected Claims & Fees Cost Based on Cigna Projections

The City includes a weighted average premium cost per employee per year in the budget for all full-time employees. The FY 2016 weighted average for full-time employees is \$12,525 in the FY 2016 Budget. The growth in the weighted average is shown in this table.

Fiscal Year	Cost Per Full Time Employee	Notes
FY 2012	\$8,500	
FY 2013	\$9,150	
FY 2014	\$10,300	Transition Year
FY 2015	\$12,000	
FY 2016	\$12,525	

The City is evaluating changes to the health insurance program in an effort to contain future premium growth. One such change is to alter the Specific Stop Loss (SSL) limit from \$90,000 to \$110,000 per claimant per year. The renewal quote contained a high cost for the reinsurance coverage at the \$90,000 level, and the City will save \$185,443 in premium costs by changing the coverage level to \$110,000. The budget includes changing the Specific Stop Loss limit to \$110,000 per claimant per year.

Virginia Retirement System - The City's total contribution rate under the Virginia Retirement System for the FY 2015 - FY 2016 biennium is 20.94%. Of that rate, 5% is the responsibility of the employee as the "member contribution." Although the City paid this member contribution for its employees for many years, the 2012 General Assembly made changes to the VRS that require the City's employees to pay the 5% out-of-pocket. All employees hired on or after July 1, 2012 must pay the 5% immediately, while employees hired before that date must pay the 5% after a five-year phase-in. FY 2016 will be the fourth and final year of the phase-in for City employees, so all employees will pay 5% while the City pays 15.94%. State law also requires that salaries for those employees hired before July 1, 2012, be raised an amount equivalent to the increased out-of-pocket cost. The FY 2016 Budget includes a 2% adjustment for those employees in order to complete the statutory mandate. The phase in approach was decided upon in order to save money due to the benefit of natural attrition. It was decided to complete the mandatory 5% phase-in in FY 2016 in order to eliminate the growing administrative burden of maintaining separate benefit structures based on date of hire as we've reached the end of the major cost savings opportunity.

There is no change to the VRS rate for FY 2016, but the City will experience savings as the final statutory program transition is completed. Because the City chose to phase-in the VRS changes, in FY 2016 the 2% pay adjustment is only given to those who were employed with the City prior to July 1, 2012. Employees hired after that date have been contributing the entire 5% employee share since their original hire date, as required by law.

All City employees hired on or after January 1, 2014 are required to enroll in an alternative retirement plan that is a “hybrid” between the current “defined-benefit” pension model and a “deferred-compensation” model. The statute exempts from this requirement law enforcement, firefighter, and other employees who are eligible for the LEOS special law enforcement benefits. City employees who are required to join the new “hybrid” plan will also be granted short-term disability insurance with a long-term disability insurance product that will replace the current VRS disability retirement program. The City will be charged an additional 0.59% of covered payroll for the benefit. The cost of this benefit will be highly variable based on the number of new employees hired in FY 2016; City staff has set aside \$10,000 to cover this expenditure.

Rappahannock Regional Jail

The City of Fredericksburg is a member jurisdiction, along with the Counties of King George, Stafford, and Spotsylvania, of the Rappahannock Regional Jail. Costs to operate the Regional Jail are generally based upon the prisoner days assigned to the City compared to the prisoner days assigned to the other three jurisdictions. Prisoner days are assigned based upon the location of the offending incident that led to the detention, as opposed to the home address of an offender. The most recent *Jail Cost Report* prepared by the State Compensation Board (FY 2013) shows operating costs of \$52.80 per inmate per day at the Rappahannock Regional Jail, well below the statewide average of \$75.00.

The City’s prisoner days have risen over the past few years, and the City’s share of operating costs for the Regional Jail will continue to increase during FY 2016. The City has a large number of inmates who have been sentenced and are awaiting transfer to a State run institution. While the Commonwealth does reimburse the Regional Jail for a small portion of the cost of State responsible inmates, the City bears the majority of the cost until the transfer takes place. City staff, Constitutional Officers, and Jail staff are working to address ways to expedite the process of transferring our inmates into the care of the Commonwealth after sentencing in order to help contain costs. The allocation for the jail in FY 2016 is \$3,938,720 which amounts to an increase of \$155,000 (4.1%) over the FY 2015 budget. Overall, the City’s share of prisoner day usage is 25.24% of the total for the four jurisdictions.

Rappahannock Regional Jail	Total Costs¹	City Prisoner Days
FY 2008	\$3,038,960	85,338
FY 2009	\$3,240,880	89,849
FY 2010	\$3,495,961	87,562
FY 2011	\$3,245,028	80,347
FY 2012	\$2,855,352	96,985

¹ Includes operations, maintenance, and debt service.

FY 2013	\$3,026,000	110,520
FY 2014	\$3,474,045	117,652
FY 2015	\$3,783,720	113,500 (Projected)
FY 2016	\$3,938,720	-

Over the past several years, the Regional Jail contracted with Federal Immigration and Customs Enforcement to house detainees held for immigration violations. However, during FY 2015 the federal government removed the detainees from the Rappahannock Regional Jail, and the Regional Jail will no longer receive payment from the federal government for the housing of the detainees. The local share of costs to operate the Regional Jail may increase as a result of the loss of this arrangement, although it is difficult to estimate the extent of the impact to the City at this time.

Staffing Adjustments

The FY 2016 Budget includes several new positions. After careful consideration of all departmental requests, these positions were selected based on how strongly they support implementation of City Council's Goals and Initiatives, as well as the Novak Organizational Study and other audit documents.

As the City continues to move toward the goal of implementing 24/7 advanced life support, the FY 2016 Budget includes the addition of two paramedic positions. This will allow the Fire Department to strengthen ALS staffing capability on weekends. The total cost of these new positions is \$150,470.

The City has been fortunate over the past few years to have received support from the federal grant program for Community Oriented Policing Services (COPS). The grant funding has expired; however, the increase to the General Fund is only a portion of the total position cost as the local funding for this position was transferred to the City Grants fund in prior fiscal years. Funding for this officer is now 100% local with a net increase to the General Fund of \$40,675.

After the completion of the Information Technology strategic plan, it was determined that the department was in need of additional staffing. The FY 2016 Adopted Budget includes funding for a Computer Technician position. This position will allow the IT Department to better serve City employees by increasing the ability to fulfill requests for assistance with technology and meet service level agreement demands. The total cost for this position is \$70,085.

The FY 2016 Adopted Budget includes funding for a Purchasing Agent who will serve all City departments. The cost of this position will be shared between the General, Water, Wastewater and Transit Funds. Government purchasing has many complex rules and regulations, especially when related to federal dollars which require a labyrinth of additional procedures to be followed. The addition of this position was a high priority recommendation of the Novak Organizational Study. Since the completion of the Novak Study, two separate audits have concluded that the City's purchasing procedures should be improved. The approval of this position should greatly improve general management and fiscal accountability of the City.

The contribution of the separate funds towards the cost of the Purchasing Agent position is shown below.

Fund	Cost of Purchasing Agent
General	\$56,985
Water	\$14,250
Wastewater	\$14,250
Transit	\$9,500
Total (includes benefits)	\$94,985

Residential Solid Waste and Recycling Collection

In June 2014, the City began a pilot program to evaluate the effectiveness of a modified system for residential solid waste and recycling collection. The pilot program introduced 65 gallon roll-out carts for both solid waste and recycling, and changed the location and frequency of collection from backyard collection twice a week to curbside collection once a week. The pilot program took place in two neighborhoods: College Heights and Darbytown. Approximately 500 customers were included, which is roughly 13% of the total number of current customers citywide.

The success of the pilot program, and the lessons we learned, have given us confidence that we can expand the program to other neighborhoods in Fiscal 2016. The FY 2016 Adopted Budget includes funds to expand the program in a phased manner during the next two fiscal years. The current plan will implement a modified collection system for current customers of the solid waste collection system. The City is not proposing to make the system mandatory for non-subscribers at this time.

Outside Agency Funding

Human Services Agencies – After evaluating the needs of our regional partners who provide supplemental services in the human services field, the FY 2016 Adopted Budget includes small increases for several regional governmental agencies as well as nonprofit organizations.

The Rappahannock Area Community Services Board requested funding for two additional positions to increase staffing in the Emergency Services program area. After discussing this request with other localities in the region, the City provided funding for one of the two positions in FY 2016. The City's allocation to RACSB increased by \$14,000 to a total of \$215,005 for FY 2016.

Arts, Cultural and Education Funding – Germanna Community College operational funding is \$8,325 for FY 2016. In addition to the operating funding, the City Manager's Recommended Budget includes a capital commitment of \$35,000 per year for 7 years, totaling \$245,000, to pay for a share of the cost to construct the Science, Engineering and Information Commons Building at the Fredericksburg Campus. FY 2016 will be the third year of this contribution to Germanna Community College.

Central Rappahannock Regional Library

The adopted budget includes \$1,285,000 in funding for FY 2016. The Library requested an increase from the City which is not being provided. Many of the items the Regional Library requested require support from all localities in the region. There was no indication of support for

these initiatives by our regional local government partners. The City regretfully decided not to add any additional funding for FY 2016.

Rappahannock Regional Solid Waste Facility

The City is a partner with Stafford County for the Rappahannock Regional Solid Waste Facility, known commonly as the R-Board Landfill. Stafford County is the Fiscal Agent for the R-Board. The R-Board is in the process of building an additional cell for solid waste, and the City and the County are each issuing debt for the construction of the landfill.

The City Council amended the adopted FY 2016 budget to issue the debt and to transfer the bond proceeds to Stafford County for the R-Board landfill. The R-Board will be responsible to the City and the County to pay the debt service costs using tipping fee and other landfill revenue. The amount of the bonds planned by the City is not to exceed \$2.25 million. The projected debt service cost is projected to be \$350,000 annually for the next seven years. These amendments were made to the City's General Debt Service Fund, and do not directly affect the General Fund.

The General Fund does include the tipping fees charged to the City by the R-Board for the solid waste taken for disposal by the City Public Works Department. The City Manager's Recommended Budget included an increase in the budget for tipping fees, and an increase in the bi-monthly solid waste fees charged to customers to pay for the increased costs. However, during City Council review the Council removed the increase, and the bi-monthly rates for solid waste collection remained at the same level as FY 2015.

REVENUES

Increases in Revenue Forecasts

The City has been fortunate that growth and development have taken place over the last year. We have seen new business growth in the City as well as increased consumer activity that helps to boost our revenues each year. Based on revenue performance in prior years and in FY 2015, the City's budget projections for several major revenues have modestly increased over last year's budget.

Real Estate Tax

The FY 2016 Adopted Budget includes a three cent increase in the real property tax rate. The rate for the FY 2016 Budget is \$0.82 per \$100 of assessed valuation. The total real estate property tax revenue is \$28,615,000, an increase of \$1,339,195 over the FY 2015 budget. Approximately one million dollars in revenue growth is a result of the tax rate adjustment, while the remaining \$300,000 increase in the forecast is a result of construction growth in the City's real estate tax base.

Personal Property Tax

The budget anticipates FY 2016 Personal Property Tax collections of \$8,000,000. The rate will remain the same at \$3.40 per \$100 of assessed value. A higher rate of delinquent payments for the first half of FY 2015 and slower overall growth in current year collections didn't allow for any growth in the anticipated revenue collection for FY 2016.

Meals Tax

The City has been fortunate to have a strong base of quality restaurants creating a growing

revenue source for the City. The FY 2016 Budget includes an increase of \$100,000 over the FY 2015 budget amount, for a total budget of \$9,950,000. The budget represents an increase of 2.0% over the FY 2014 actual revenue.

Sales Tax

The FY 2016 Budget includes a revenue forecast of \$11,070,000. There is no increase in the forecast over the prior year budget. Collections in FY 2014 slowed and dipped below the actual collection for FY 2013. While the start of FY 2015 has been stronger compared to FY 2014, inconsistent collections throughout the year will cause the FY 2015 number to fall short of the budgeted amount.

Lodging Tax

Lodging Tax is the fastest growing revenue in the FY 2016 budget. Collections in FY 2015 are up over 15% compared to this point last year. The majority of that increase can be attributed to the success of the Hyatt Place Hotel without lowering the occupancy rates of other hotels in the City. The budget for FY 2016 is \$1,375,000 or a \$175,000 increase over the prior year budget.

EMS Service Fees

Ambulance transports are provided by the Fredericksburg Fire Department and by the Fredericksburg Rescue Squad. The Fredericksburg Fire Department operates two Advanced Life Support (ALS) ambulances Monday through Friday, 5:30AM to 6PM, and one ALS unit during the day on Saturday and Sunday. The Fredericksburg Rescue Squad provides Basic Life Support (BLS) and/or Advanced Life Support (ALS) response units during evenings and weekends. Fire Department suppression personnel, all of whom are certified at the Emergency Medical Technician level or higher, provide supplementary EMS support during times of high call volume. During calendar year 2014, a total of 3,665 transports were provided (Fire Department 50.7%; Rescue Squad 49.3%). The anticipated revenue for the FY 2016 budget year is \$820,000, or a \$17,000 increase over the FY 2015 budget.

State Revenue

The General Fund receives revenues from the Commonwealth of Virginia which are projected to total \$8.9 million in FY 2016. The three broad categories of revenue are: Shared Expenses for Constitutional Officers; Categorical Aid for Urban Street Maintenance, Law Enforcement Assistance, and Wireless E-911 Grants; and Non-Categorical Aid from the Communications Sales Tax and Personal Property Tax Relief.

Revenue from Shared Expenses for Constitutional Officers is projected to total \$1.64 million in FY 2016. Revenue from Categorical Aid for Urban Street Maintenance, Law Enforcement Assistance, and Wireless E-911 Grants is projected to total \$3.4 million. Revenue from Non-Categorical Aid from Communications Sales Tax and Personal Property Tax Relief is projected to total \$3.7 million.

CAPITAL IMPROVEMENTS PLAN – HIGHLIGHTS OF MAJOR PROJECTS

Original Walker Grant Renovation - \$13,000,000

The City Council, during the budget review process, accelerated the timing of the

renovation of the 1951 building of the Original Walker Grant Middle School complex. The School Board of the Fredericksburg City Public Schools, during a joint meeting with Council on March 30, 2015, briefed City Council on the project and identified it as the highest capital priority for the schools for the next several years.

The renovation of the school will allow for the continued use of the building into the future for Head Start and the Alternative School program. The renovation project will also include renovations for administrative spaces, and will free up several spaces, including the Original Wallace Library building on Princess Anne Street and spaces in several schools that will be repurposed. The City will be bringing forward a bond issue over the next few months to fund this project.

Technology Replacements and Improvements - \$262,500

The City must continue to replace and upgrade existing technology and look for ways to deploy improved technology to assist with work activities. The budget for technology capital in FY 2016 will replace 93 computers, 15 mobile printers for public safety vehicles, and 14 iPads; update eleven servers; and install a fire suppression system for the Police Department Server room. In addition to updating primary IT equipment, the budget includes funding for a wireless microphone system, replacement credit card machines for Treasurer and Parks and Recreation points of service, and several uninterruptible power supply (UPS) battery systems.

Telecommunications Replacement - \$85,500

This project will replace the nearly 20 year old phone system in City Hall. The current system and related software are no longer supported by the manufacturer and software updates are no longer available. This upgrade will allow for a Voice over IP Phone System to be installed in City Hall which would help facilitate interdepartmental communications and consolidate telecommunication systems costs and support into a single vendor system. This project will be a major project focus for the City's Information Technology Department in FY 2016.

Ambulance Replacement - \$260,000

The capital budget includes funding to replace an ambulance for the Fredericksburg Fire Department. The replacement apparatus will enhance the reliability of critical equipment that is under constant demand due to increased calls for service.

Riverfront Park Design - \$500,000

The next steps in the Riverfront Park project include the completion of the design and the development of construction documents. The design phase of the park was included in the 2015 bond issue, and the FY 2016 includes funding to complete this phase of the project. A request for proposal has been issued for this work with the intention of awarding a contract to complete design over the next two fiscal years.

Planning Area Plans Update - \$150,000

Based on Comprehensive Plan goals, objectives, and initiatives, completing Area Plans for specific locations of the City will provide direction for Council and the Planning Commission when considering land use applications. A comprehensive and cohesive area plan can be used as a tool to guide future land use decisions and the expenditure of funds for public facilities. The first

two area plans to be completed are the Princess Anne Street and University areas near and along the Route One Corridor.

U.S. Rt. 1 Bridge over Hazel Run - \$340,000

The Virginia Department of Transportation has performed preliminary engineering studies on the U.S. Rt. 1 Bridge over Hazel Run. The total length of this bridge is 0.03 of a mile. It has been concluded that performing certain repairs to the bridge will extend the useful life of this structure considerably. This project does not add any additional capacity to the bridge. The City has applied for revenue sharing funding in the amount of \$340,000 and has included the local match to the revenue sharing application in the FY 2016 Capital Improvements Plan. This project is a VDOT administered project and the City will send its portion of the project to the Commonwealth during FY 2016.

Traffic Signal Modernization - \$1,125,000

In order to address some of the aging traffic signals in the City, the FY 2016 Revenue Sharing application requests funding in the amount of \$562,500 to replace five signalized intersections in the downtown area. These five were chosen based on the need for replacement and the need for pedestrian crossings improvements. The new signals will feature mast arms and signal poles with decorative, architectural-style ornamentation to complement the streetscape of the historic district. The five intersections are as follows:

- Amelia Street at Caroline Street
- Amelia Street at Princess Anne Street
- Amelia Street at Prince Edward Street
- Lafayette Boulevard at Princess Anne Street
- Lafayette Boulevard at Caroline Street

Caroline Street Waterline Replacement - \$2,365,100

The potable water lines beneath Caroline Street serve the majority of the downtown area. These lines are rapidly approaching the end of their projected life-cycle. While presently serviceable, the consequence of their failure and the condition of the pipes makes it prudent to upgrade and replace the piping in the near future. This project is slated for completion in FY 2016.

Wastewater Treatment Plant Filter Press Replacement - \$1,500,000

The Wastewater Treatment Plant presently operates two belt filter presses to dewater the waste prior to disposal in the landfill. The present belt presses have operated beyond their projected life-cycle and require consistent monitoring by plant personnel. A study completed in 2014 concluded that the installation of either a new larger belt press or a screw press would reduce the amount of operator time and attention required, as well reducing operating expenses by producing a dryer product while continuing to allow the plant to operate with the terms of environmental permits.

Fall Hill Avenue Utility Betterments - \$538,720

Plans for the upgrading of the Fall Hill Avenue roadway have been approved by the Virginia Department of Transportation. There are a number of small upgrades and improvements to the City's utilities which are required during the construction of this upgraded roadway. These improvements, while necessary, are not within the scope of the work by VDOT. The betterments

include relocation of a sewer line and realignments of water mains, all of which are either presently needed or will be needed in the near future.

OTHER FUNDS – HIGHLIGHTS

City Grants Fund

The City Grants Fund for FY 2016 totals \$1,361,515. In order to support the expenditures in this fund, the City will need to transfer \$365,500 from the General Fund, which represents matching funds for various grant programs. The transfer has increased \$9,000 from the recommended budget to fund the Midnight Madness Summer Youth Basketball Program.

The Community Development Block Grant (CDBG) program continues to see a decline in entitlement grant revenue from the U.S. Department of Housing and Urban Development. In FY 2010, the CDBG grant amount totaled \$245,574. Since then, it has dwindled to \$120,000 projected for FY 2016. Total support from the General Fund in FY 2016 is \$50,000. There is a small local fund balance in the City Grants Fund associated with this program and it is being used in the amount of \$7,215 to help reduce the burden on the General Fund transfer in FY 2016.

Regional Group Tourism has requested level funding from the City of Fredericksburg in the amount of \$50,000. The submitted budget requests the same amount from Spotsylvania and Stafford Counties and creates a total Regional Group Tourism budget of \$150,000. The funding will be used mostly for advertising in group tourism outlets in an effort to make the region a major stop for large bus tours.

The Victim Witness and Domestic Violence programs have collected a fund balance over the past few fiscal years. Each year these programs have required more local support due to the continually increasing costs of employee benefits coupled with flat funding from the State and Federal governments. In order to reduce the transfer from the General Fund, the FY 2016 Budget includes a onetime use of fund balance to lower the transfers to these programs. The use of fund balance in FY 2016 for these two programs is \$18,375.

Social Services Fund

The City Social Services Fund is \$5,286,060 for FY 2016. This is a 15.4% increase over the FY 2015 adopted budget². The City's transfer from the General Fund to the Social Services Fund increased by \$117,555, or 11.3%, to \$1,157,365. The budget also uses \$113,500 from the Public Assistance fund balance.

The increase in the Social Services Fund budget can be attributed primarily to an increased demand for services. While economic conditions have improved slightly and there has been a decrease in the unemployment rate, the continued high caseload level indicates that residents are requiring services for longer periods of time. To better handle the increased caseload, the FY 2016 budget includes an additional full time Benefit Program Specialist, as well as a part-time receptionist. The Benefits Program Specialist will be able to take on a full caseload which will help spread the workload to a more manageable level. The Department also feels the addition of

² The FY15 adopted budget for the Social Services Fund was based on a figure that was lower than the FY14 actual budget due to over-conservative estimates of revenue for several state and federal programs.

this position will reduce the amount of overtime that will be expended in FY 2016. The local portion of this position is approximately \$17,500. The part-time receptionist will work during peak hours to help manage the call volume coming into the department. The local portion of this position is approximately \$2,520. The remainder of the local increase is attributed to increases in the cost of current salary and benefits, information technology replacements, and some one-time expenditures associated with expanding into additional office space.

Comprehensive Services Act Fund

The City's Comprehensive Services Act Fund totals \$1,928,470 for FY 2016. That amount is an increase of 2.76% from the FY 2015 adopted budget. The CSA program budget reflects mandated costs for special needs children, and is a shared responsibility between the City and the State government. The City's General Fund transfer to support the CSA program remains the same at \$675,275. The CSA program ended last fiscal year in a favorable position and added a substantial amount to the CSA Fund Balance. In order to lessen the burden on the General Fund transfer, the use of \$160,840 in fund balance for FY 2016 has been approved. This allocation still leaves a projected fund balance of \$272,111 at the end of FY 2016, which staff feels is an adequate reserve to cover costs in the event there is an unanticipated level of care needed in the future.

Water Operating Fund

In FY 2012, the City hired Municipal & Financial Services Group (MFSG) to conduct a comprehensive water and sewer rate and management study. The study concluded that based on the current sales of water and charges for sewer, revenues were not sufficient to fund the operations and maintenance of the water and sewer systems. MFSG prepared a detailed cash flow model and recommended that water and sewer rates be raised over a multi-year period, beginning in FY 2013. The City has implemented the plan as recommended and the cash position in the utility enterprise funds has begun to improve. This has enabled a more robust capital improvements plan to be laid out over the next five years. The FY 2016 Budget includes average rate increases of 4.0% for water and 4.0% for sewer service. These rate adjustments are intended to generate additional revenue to cover debt service payments for necessary capital projects while still continuing to build the proper operating reserves for long-term success and stability of the utility systems.

The City's Water Operating Fund totals \$4,439,790 for FY 2016, which is an increase of 17.5% from the FY 2015 adopted budget. The FY 2016 Budget includes the debt service payment for the 2015 Bond Issuance in which the funding was used to support many major capital projects; this is a large driver in the increased appropriation level of this fund. Included in operations is half the cost to purchase a compact excavator that will be utilized by both the Water and Sewer Crews. The transfer to General Fund overhead is increasing by \$14,250 to account for 15% of the cost of the purchasing agent.

Wastewater Operating Fund

The City's Wastewater Operating Fund appropriates at \$6,992,825 for FY 2016, which is an increase of 8.2% from the FY 2015 adopted budget. The FY 2016 Budget includes the debt service payment for the 2015 Bond Issuance in which the funding was used to support major capital projects. Included in operations is half the cost to purchase a compact excavator that will be utilized by the Water and Sewer Crews as well as some additional supplies and small equipment. The

transfer to General Fund overhead is increasing by \$14,250 to account for 15% of the cost of the purchasing agent.

Transit Operating Fund

The City's Transit Operating Fund is \$5,710,744 in FY 2016. There is little change in the Transit Fund Budget for FY 2016. Savings from anticipated lower fuel prices have been shifted to cover other increasing expenditures. The transfer to General Fund overhead is increasing by \$9,500 to account for 10% of the cost of the purchasing agent.

Parking Fund

The City's Parking Fund totals \$685,620, which is a decrease of 4.1% for the FY 2016 Budget year. Included in the budget are the costs associated with leasing and managing the 904 Princess Anne Street parking lot.

The 297-space Sophia Street Parking Garage, which opened in November 2005, is the City's primary parking asset. The facility serves tourists, shoppers, hotel patrons, City employees, and VRE commuters. In FY 2016, operating revenues are projected to equal operating expenses and depreciation. Debt service of \$300,670 is funded from a combination of the City's motor fuels tax account and revenue generated from parking fees.

Celebrate Virginia South Community Development Authority Fund

The City serves as the fiscal agent for the Celebrate Virginia South Community Development Authority. As part of the ongoing agreement with the Authority, the City includes in the annual budget the amount of the debt service for the year. The Treasurer is responsible for billing and collecting the special assessments, and for paying the debt service on the CDA bonds. The appropriation amount for the special fund is \$1,951,836.

CONCLUSION

The FY 2016 Adopted Budget makes many positive investments in worthwhile services and infrastructure that will greatly benefit the citizens of Fredericksburg. This budget continues working towards our goal of providing 24/7 Advanced Life Support services while providing other positions in the General Fund that will improve our overall ability to provide local government services. The renovation and re-programming of space at Original Walker-Grant will meet the highest capital priority of the Fredericksburg City Public Schools for the next several years, and will potentially open the Original Wallace Library building for re-development. The FY 2016 Adopted Budget also addresses much needed capital infrastructure improvements, equipment replacement, and adds operational efficiencies through technology improvements. The FY 2016 budget does an excellent job of balancing the needs of the City while respecting the limits of our financial resources.